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**TRADE BARRIERS IN EXPORT OF FINNISH GOODS TO
RUSSIAN FEDERATION**

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ABSTRACT

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<p>This work was written with the purpose of explaining and identifying trade barriers obstructing exports of goods from Finland to Russian Federation. With many changes in international trade, it is important to realise possible problems and solutions for them when engaging into exporting goods to another country. This work was written to realise those. The information for it was collected from several national reports concerning trade with Russia and from a couple of interviews with local businessmen, who have experience in exporting goods to Russia. As a result, some of the potential risks were shown and possible solutions for avoiding them, as well as engaging into safer business operations, were found. At the current moment these data might help Finnish companies, when engaging into business with Russian Federation and might also help in updating the, already obtained, information.</p>		

Key words classification of trade barriers, exports to Russia, Russian Federation, trade barriers, trade barriers in Russian Federation,
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1. INTRODUCTION

After the experience of two summer trainings in a Polish company, on the position handling international purchases, the subject of Border Customs and International Trade in general, proved to be of high significance and interest in modern business environment. It led to the point, where plan to write a final thesis, about customs solutions used by companies with aim to execute international trade operations faster, cheaper and at lower risk rate, emerged. Sadly, after almost a year of tries, this idea failed. The reason for it was ongoing costly development of earlier mentioned solutions by companies engaging into trade with countries not belonging to European Union (non-EU). They were not ready and not willing to share and release into public their ideas and methods.

It became clear, that new subject for research had to be found. With assistance of Dr. Mariusz Branowski, from Poznan University of Technology (PUT), it was found. To create a solution, one must first identify the problems interfering with the activity. Customs solutions were meant for Customs procedures and tendencies. Questions are: what are those tendencies, how are they indentified, who sets those procedures and with what aim in mind? At this point, idea of trade barriers research emerged.

It was followed by understanding, that, when trying to enter Finnish business life, one sees that the international trade is dominated by three countries: Sweden, Germany and Russian Federation. While first two are members of the EU and trade is simplified, while the third one has entirely different laws and rules concerning trade. Russia is Finland's' biggest neighbour and their history of cooperation and conflicts reaches far back into history. It is an enormous, still growing market with high potential for being Finnish exports target. Russian Federations' importance was, is and will be high for Finnish business.

Combining the idea of trade barriers and significance of Russian market for Finland, new research subject, which will be the topic of this work, appeared. The aim of this thesis is to

make concept of trade barriers better known and understood, as well as to collect potentially business worth information concerning them, that could help companies in Finland preparing for exporting to Russia. This work is going to concentrate on barriers making Finnish exports to Russian Federation harder. Also along with tariff barriers becoming less significant (this process will be explained further on in this work), more pressure will be put on nontariff and natural barriers.

International trade in general exists since the times when barter was used. To open or protect some markets wars were waged over centuries. Along the time its importance has grown, accelerating in the past 40 years, creating a web of links between countries, reaching the stage, when in 2011 world trade in merchandize exceeded US\$12 trillion and in commercial services it was estimated at around US\$4 trillion. It is hard to imagine such amounts of money, but this data helps to give some indication of the scale of international trade today. Nations trade, expecting to get something from each other. At least in theory, it is impossible for country to be completely insufficient without incurring excessive costs. There are different trade options and theories, which will not be covered here, and it is valuable to know them while reading this report. They can be found for example in the literature used. (Onkvisit & Shaw 2009, 31; Doole & Lowe 2012, 3)

The current situation in exporting from Finland to Russian Federation is good, but it can never be called perfect. What statistical information cannot show are the problems and failures of companies, which tried to engage into export business with Russia without any preparation. How can the situation be improved so that the success rate in such type of business will be closer to perfection? This question and ways of preparing oneself when engaging into trade with Russian Federation will be the main two problems of this thesis and will be answered at the end of it. The data for this research are provided from meetings with people who had experience in doing business with Russia and from reports prepared by Finnish and other countries' governments describing trade situation with Russian Federation. Those reports are based on surveys and researches, and provided a lot of valuable information for this work. Literature written in the references provided good theoretical knowledge and examples, which made understanding the subject easier. They are worth reading as a support for understanding the report and widening the viewpoint.

This thesis is created with thought, that it will be worthy research experience and a useful source of information for companies interested in engaging into exports to Russian Federation. Also it should provide them with ideas and solutions how to prepare for it.

2. THEORY OF TRADE BARRIERS

Domestic trade happens between two units in one country under the same political governance and directly influencing only one national market. On the other hand international trade happens between two units being under two different political systems, each controlling and caring for its own domestic trade, and directly influences both national markets. Trade between countries increases the variety of goods on local markets, lowers the prices on those products and gives chance for local companies to sell abroad. Those are the positive effects, but still as much as countries do not mind exporting, they do not like importing. Exporting of goods is connected to bigger inflow of money to the country and development of local industries. Imports mean money outflow, bigger variety of products on the market and, as a result, higher competition for domestic companies. (Onkvisit & Shaw 2009, 71; Doole & Lowe 2012, 43; Radcliffe 2011.) It also might lead to a situation, when economical dependence might allow endangering political independence of a country, as it happens, for example, with Russia influencing other governments and their decisions by controlling the prices and flow of oil and gas they sell.

That is when trade barriers come into the picture. Definition, issued by the U.S. Trade Representative in *The National Trade Estimate Report on Foreign Trade Barriers* (2013), expounds trade barriers as

“government laws, regulations, policies, or practices that either protect domestic producers from foreign competition or artificially stimulate exports of particular domestic products.”

However this definition does not consider restrictive business practices and government regulations designed to protect public health and national security, as trade barriers. (Onkvisit & Shaw 2009, 73) When one looks for most adaptable and accurate definition, it comes out that it is not that simple. The variety of barriers, reasons for using and ways of classifying them create many options. In the end, we can define them, in most simple way, as: “restrictions and obstacles impeding free international exchange of goods and services” and it will serve as the main definition of trade barriers for this research.

2.1 Why are trade barriers used?

Some of the reasons for usage of Trade Barriers were already mentioned earlier, in this text, but they are not the only ones. We can divide them all into three main groups by function: protection, finances and retaliation.

The first group is strongly associated with Protectionism, which is an economic policy of restraining trade between states, designed to protect domestic market against imports. The dispute about protectionism, being beneficial or harmful for the domestic industry, continues between economists, although it is said that main stream economists are against this policy and they agree that world economy generally benefits from free trade. (Encyclopaedia Britannica; Protectionism) The last major era of protectionism was in the decade preceding World War II (1930's) due to Great Depression. Under its impact, countries around the world abandoned their policies of free trade and adopted high tariffs to protect local industries. Nowadays protectionism is still existent, but on smaller scale. (Doole & Lowe 2012, 46)

The protection group can be specified into securing:

- employment – it is often explained that increased competition on the market might cause the domestic industry to fire workers or shift the production abroad in order to cut the costs. Raising barriers for imports make the local producer more competitive and will create more demand for local products, and as a result will ensure better domestic employment situation. However, there is a risk that domestic companies will not resist the temptation and raise the prices for quick profit. Another risk is possibility of retaliation, in a form of own trade barriers, from other countries. (Onkvisit & Shaw 2009, 73; Radcliffe 2011)
- infant industry – reason most commonly used by developing country. In order to create a domestic market for domestically produced products, government of a country establishes trade barriers, most commonly tariffs, to raise the prices of

imported products. It gives time for the local industry to develop fully and to have goods competitive with imported ones. In practice this is not so easy, as it requires the government to choose the right industry and next create the appropriate incentives to encourage productivity. Finally the government needs to make sure that the established protection is only temporary. The problem lays in deciding the right moment, when the company is ready to act independently. Having it easier and being supported will not make it willing to give up the protection so easily. (Onkvisit & Shaw 2009, 75-77; Radcliffe 2011)

- Consumers – in a situation, when government thinks that imported product might endanger the population of its country, it might establish barriers lowering the import of such product (Radcliffe 2011). For example, when there was an outbreak of bovine spongiform encephalopathy (BSE or mad cow disease) in one country, the rest of the world automatically set quotas, raises tariffs and standards for imports of beef.
- Economical independence – this reason is based on a viewpoint that a country should be self-sufficient and even support inefficiency with extra funds to enhance the national security. So the barriers emerge to lower dependency of a country on foreign nations. (Onkvisit & Shaw 2009, 75)
- Nation – some barriers are used to make sure that certain industries that are strategically important for a country and its security are protected. Defence industry in USA and in many other countries is an example of such protection. (Radcliffe 2011)
- Plant and animal life – similar situation as with consumers, but the targeted object is different. For example, ban on imports of foreign species, which might endanger population of local fauna in any way. (Schaffer, Agusti, Dhooge & Earle 2012, 274)
- Local cultural, religious, or ethnic values. It concerns, for example, ban on exports of artefacts and antiques, or limitations of materials offensive for local religion. (Schaffer, Agusti, Dhooge & Earle 2012, 274)

The second group, finances, is connected to the wealth of a country and direction of its movements. It can be divided into two areas:

- Keeping money at home – international trade creates an outflow of money in exchange for inflow of products. Depending on the local understanding of wealth, it creates the situation where country obtains tied up money as goods, which might lose their worth over the time, in exchange for more universal and more stable cash. More protective governments tend to obstruct imports to exchange less money for products. (Onkvisit & Shaw 2009, 73)
- Adding money for budget – this area is especially connected to tariffs, which are used to as means for collecting revenue for the government. This method is most commonly used by poorer nations. (Doole & Lowe 2012, 44-45)

The last type is not really a group. Retaliation is a reason itself. If a country thinks that trade partner did not play by rules, it can set trade barriers on imports of products from that country. Example of such an action can be French government rising tariff for meat imported from USA, as a result of negligence showed by the government of USA in stopping its domestic producers from calling their sparkling wines “champagne”, which name is specific to the Champagne region in France. Of course, once the situation in United States is solved, the tariffs on the meat would return to normal. (Radcliffe 2011). There is also the possibility of government being forced into retaliatory measures, by local producers, which are not happy with the controls of foreign countries on their exports. In a similar way, local producers or unions can decide to not buy foreign products in a form of strike to enforce changes in barriers that were set against them.

When the classification of trade barriers will be discussed in next parts, a group called natural barriers will emerge and it might be hard to connect them to any earlier mentioned reasons. They exist and are often different between countries, but they come from the history of a country and developed along the culture.

2.2 World Trade Organization (WTO) and General Agreement on Tariffs and Trade (GATT)

When discussing the subject of trade barriers and international trade, it is hard to not mention WTO and its predecessor GATT. As previously mentioned, because of the Great Depression in 1930s (in some countries it lasted even until middle of 1940s), countries around the globe have adopted strong protectionist measures, leaving the ideas of free trade. As a response to the situation, out of Bretton Woods conference in 1944, several initiatives were born to establish an infrastructure that would support proper establishment and development of trading relations. Part of the initiatives fell into the area of *Liberalization of international trade and tariffs*, from which the creation of GATT, in 1984, came. The other areas, which are not so essential to this research, were connected to later creation of International Monetary Fund (IMF) and International Bank for Reconstruction and Development (IBDR). (Doole & Lowe 2012, 48)

GATT itself is not an organization, but a treaty with the signatories being contracting parties. Its objective is to achieve multipartite and free world-wide system of trading. According to Onkvisit and Shaw (2009), the four basic principles of GATT are:

1. Member countries will *consult* each other concerning trade problems.
2. The agreement provides a framework for *negotiations* and embodies results of negotiations in a legal instrument.
3. Countries should protect domestic industries only through *tariffs*, when needed and permitted. There should be no other restrictive devices such as quotas prohibiting imports.
4. Trade should be conducted on a *non-discriminatory* basis.

Countries should cooperate and reduce the barriers mutually to ensure the growth and balance of trade. They should follow the principle of most favoured nation (MFN). It means that countries should treat one another as good as they treat their best trading partner or any other country. Any trade benefits or restrictions should be considered as extended to other MFN principle countries, and their results must be seen on corresponding

scale. Exception from this principle is that an advanced country should not count on mutuality from less advanced countries. In the U.S. one can meet with Normal Trade Relations (NTR) as a name used instead. (Onkvisit & Shaw 2009, 90-95)

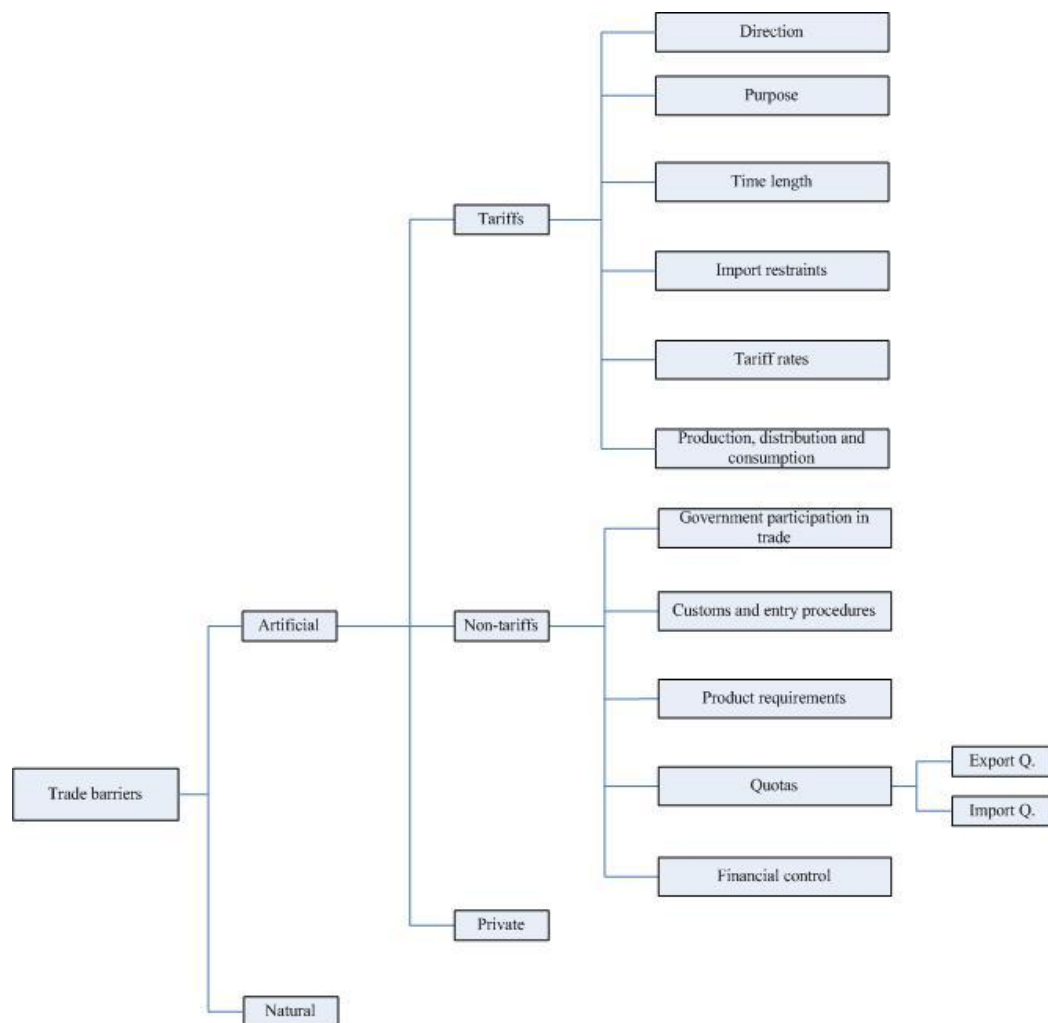
GATT was established only as a temporary body and that is why in 1995, during Uruguay Round, it was replaced with WTO. Continuing the activities of GATT and being more permanent as well as legally secure, WTO monitors trade, opens markets by international cooperation, provides forum for trade negotiations between members and resolves disputes. According to Doole and Lowe (2012), its main goals is to promote a free market international trade system and is promoting it by: working to reduce tariffs, prohibiting import/export bans and quotas, eliminating discrimination against foreign products and services, and eliminating other impediments to trade, commonly known as nontariff barriers. TABLE 1 presents Trade Rounds of global trade negotiations and their subjects. It can be seen how GATTs', and later WTOs', scope of activities have widened. If one seeks more information about WTO and its activities, then official website should be visited or sources used for this research read. (Doole & Lowe 2012, 48; Onkvisit & Shaw 2009, 90-95; Schaffer, Agusti, Dhooge & Earle 2012, 273-300)

TABLE 1. Trade Rounds of global trade negotiations (Source: Onkvisit & Shaw 2009, 80)

Year	Place/name	Subjects covered	Number of countries
1947	Geneva	Tariffs	12
1949	Annecy	Tariffs	13
1951	Torquay	Tariffs	38
1956	Geneva	Tariffs	26
1960-1	Geneva (Dillon Round)	Tariffs	26
1964-7	Geneva (Kennedy Round)	Tariffs and anti-dumping measures	62
1973-9	Geneva (Tokyo Round)	Tariffs, nontariff measures, “framework” agreements	102
1986-94	Geneva (Uruguay Round)	Tariffs, nontariff measures, rules, services, intellectual property, dispute settlements, textiles, agriculture, creation of WTO	123
2002-4	Doha	All goods and services, tariffs, nontariff measures, anti-dumping and subsidies, regional trade agreements, intellectual property, environment, dispute settlement, Singapore issues	144

3. CLASSIFICATION OF TRADE BARRIERS

Most sources, being either literature or internet sites, tend to classify trade barriers into two, well-organized groups: tariff and nontariff. Less commonly used classification names its two groups artificial and natural, which is more fitting for the purpose of study and its definition of trade barriers, but lacks precision, wider descriptions and organization. For the best results this research combines those two models presented in books: “International Marketing: Strategy and theory” from year 2009 by Sak Onkvisit and John J. Shaw, and “How to enter international markets: a Guide for SMEs” from year 2011 by Jorma Kananen. The final version is presented in the figure below (GRAPH 1). Each category and subcategories will be described in the following subsections.



GRAPH 1. Classification of trade barriers (adapted from Onkvisit & Shaw 2009; Kananen 2011)

3.1 Artificial barriers

Artificial trade barriers are restrictions put on international trade, created by government or, in case of private barriers, group of domestic companies sharing the same objectives of protecting groups' business. Artificial barriers are divided into three subcategories: tariff, nontariff and private barriers. (Kananen 2011; 19)

3.2 Tariff barriers

Tariff is a direct tax or customs duty on a products moving across. It is generally an easy and straightforward method for the country to administer. While being a barrier to trade, tariffs, are very transparent and so can be easily accounted for by companies during development of their marketing strategies. In modern international trade, tariffs, as trade barriers, are becoming less significant than in the past. It is happening due to large free trade areas emerging, which try to eliminate use of tariffs in internal trade. There are several ways to classify tariffs, but this work will follow the original classification, from "International Marketing: Strategy and theory" from year 2009 by Sak Onkvisit and John J. Shaw, dividing them by direction, purpose, length, rate and distribution point. (Onkvisit & Shaw 2009, 77; Doole & Lowe 2012, 44-45; Shaoming, Daekwan & Cavusgil 2009, 167; Radcliffe 2011; Kananen 2011,19-20)

3.2.1 Direction: import and export tariffs

Tariffs are often levied depending on the direction of product movement, which means on imports or exports. Export tariffs, used less often than import tariffs, are usually imposed on resources and raw materials that are present in the exporting country in small amounts and rarely on finished manufactured products. (Onkvisit & Shaw 2009, 77)

3.2.2 Purpose: protective and revenue tariffs

Second classification method is based on the purpose of a tariff. It can be protective tariff with aim of protecting domestic industry, agriculture and labour against foreign competition, by keeping foreign goods out of the country or by raising their prices on more competitive level with local products. The other type is revenue tariff, which is levied with aim to generate tax profit for the government. It is often used as the easiest method to collect revenue, by poorer nation. At this point, it is also worth to mention discriminatory tariffs, which are similar to protective tariffs, but are charged against goods coming from a particular country. Such action may be caused by either trade imbalance in exporting country or for political purposes. (Onkvisit & Shaw 2009, 77; Doole & Lowe 2012, 45)

3.2.3 Length: tariff surcharge versus countervailing duty

Previously mentioned protective and discriminatory tariffs, they are similar in some aspects, might be further classified according to the length of time it lasts. A tariff surcharge is a temporary action, while countervailing duty is a permanent surcharge, which is imposed on certain imports of products subsidized by exporting government. The aim of those duties is to offset a discount or special advantage allowed by the foreign government. Export subsidies are most commonly met in form of rebating certain taxes in case of exporting goods. (Onkvisit & Shaw 2009, 77)

3.2.4 Import restraints: special duties, variable duties

Import restraints as a type of tariffs are not described in the sources used in the research. They are a part of original schematic showing the classification of trade barriers used in Onkvisit & Shaw (2009), but are not discussed or even mentioned. From other, possibly

less reliable, sources some data was found and a collective definition was created. Import restraints are actions or conditions with tendency to prevent free competitions on the market. Two types of duties were enlisted under this category in earlier mentioned schematic: special and variable.

Special duty is a type of duties, which are set on lower level especially for some companies or transporters creating unfair competition on the market. It is similar to subsidies, but connected typically to boarder duties. Special privileges are in all cases illegal and are rarely used nowadays. Cases are happening in less developed countries with low political stability.

Variable duties are another kind of duties with rate varying despondingly of the domestic price criterion. They are called variable because the rate is raised or lowered frequently, in response to changes in world market prices, with idea to keep the domestic prices on set level, often being higher than worlds. During the Uruguay Round, the variable duties of the EU were converted into fixed tariffs and tariff-rate quotas.

3.2.5 Rates: specific, ad valorem and combined

Next classification is based on how are the tax rates applied on the good crossing the border. There are three kinds of tax rates that can be distinguished: specific, ad valorem and combined. (Onkvisit & Shaw 2009, 78)

Specific duties are counted as a fixed or specified amount of money per unit of weight, volume, gauge or other indicator of quantity. So for each given unit of measure a set amount of money is paid, for example a country could levy a tariff of 10 euro on each pair of shoes or 350 euro per ton of sugar. In case of specific duties, product costs or prices are irrelevant. The duties are constant for the same kind of products. This method works as a

very effective protection against import of cheap, usually lower quality, goods. It happens so, because of reverse relationship between product value and duty percentage. With the price rising, the duty showed as a percentage of this price will fall. Accordingly, if the price is lower, the duty percentage will rise. It is typical for fungible goods like crude oil or wheat. (Onkvisit & Shaw 2009, 78; Doole & Lowe 2012, 45; Radcliffe 2011; Schaffer, Agusti, Dhooge & Earle 2012, 275.)

Ad valorem (from Latin according to value) tariffs are the opposite of specific since ad valorem duty is counted as a fixed percentage of the invoice value of product and is later applied to the dutiable value of the imported goods. In this method there is direct relationship between the price and duty paid in this case. Along with the increases and decreases of the price of the product, the absolute amount of duties paid will change accordingly. This method provides a continuous and relative protection against particular product on all levels of prices, and is much more effective, than specific duties, against increases in prices of imports caused by inflation. Ad valorem tariff can be also easily compared between countries and products. It is typical for goods varying in value, like tables, machines and specialized parts. (Onkvisit & Shaw 2009, 78; Doole & Lowe 2012, 45; Radcliffe 2011; Schaffer, Agusti, Dhooge & Earle 2012, 275.)

Combined rates (or compound duty) are a combination of the two earlier mentioned types on a single product. Both specific rate and ad valorem rate are applied to an imported product. Both rates are used together, for example 10 euro per kilo and 5% ad valorem, and depending on a country either both are applied or the one, which produces more revenue. (Onkvisit & Shaw 2009, 78; Doole & Lowe 2012, 45; Radcliffe 2011; Schaffer, Agusti, Dhooge & Earle 2012, 275.)

3.2.6 Distribution points: distribution and consumption taxes

There are indirect taxes, which are collected at a particular point of distribution or while purchase or consumption occurs. Those, frequently adjusted at the border, taxes can be

divided into: single-stage, value-added, cascade, excise, turnover, and equalization tax. The distribution taxes are compared at the end of this chapter for a clearer view, in TABLE1.

Single-stage sales tax is a tax collected only once in manufacturing and distribution chain, when product is purchased by final consumer. Retailers and wholesalers can make purchases without paying any taxes, by showing the right documents, in U.S.A. it is a sales tax permit. (Onkvisit & Shaw 2009, 78-79)

Value-added tax (VAT) is a multistage, noncumulative tax on consumption. It is charged and needs to be paid on every stage of production and distribution system, but only on the value being added at that stage. When a seller collects the VAT from a buyer, he can deduct the amount of VAT that he already paid while buying the product himself and reemits the balance to the tax office. In EU, upon importation of goods, VAT is collected based on Cost, Insurance & Freight (CIF) value and the duty charged on imported product. Countries are allowed to rebate VAT on exports. It means that VAT, being applied on imports and not on exports, might improve country's trade balance. (Onkvisit & Shaw 2009, 78-79)

Cascade taxes are turnover taxes applied at every point of manufacturing and distribution chain and are charged on the total value of a product, including the taxes that were already paid on earlier stages. Accumulating over the chain taxes mean that the sum of taxes paid will be much higher than the rate of the tax. (Onkvisit & Shaw 2009, 78-79)

Excise tax is typically imposed in addition to other indirect taxes. It is a one-time charged duty on the sales of specified products, such as alcoholic beverages, cigarettes and petroleum. Depending on a country it can be imposed on other products as well. (Onkvisit & Shaw 2009, 78-79)

Turnover tax is an indirect tax usually counted on the ad valorem basis of the goods. It is paid during or after the manufacture of a product, rather than during sales.

Equalization tax is applied to situation when a worker, for example, is sent on a foreign assignment and needs to pay different tax than in his home country. Depending on the fiscal policy between countries he might even have to pay double taxes. Tax equalization is the counterbalance for such a situation and is meant to create a situation, in which working abroad is tax neutral for the worker. The employee pays his taxes in the same amounts as in home and all the other effective taxes and equalization to foreign tax is paid by the company. (The Fry Group, 2013)

TABLE 2. A comparison of distribution taxes (adapted from Onkvisit & Shaw 2009, 79)

Point in chain	Price charged	Payer of tax	Single-stage sales tax	VAT	Cascade tax
Farmer	\$4	Manufacturer	None	On \$4	On \$4
Manufacturer	\$5	Wholesaler	None	On \$(5-4)	On \$5 + previous tax
Wholesaler	\$7	Retailer	None	On \$(7-5)	On \$7 + previous taxes
Retailer	\$10	Consumer	\$10	On \$(10-7)	On \$10+ previous taxes

3.3 Nontariff barriers

The next type of trade obstructions are the nontariff barriers. In the simplest words they can be defined as all the artificial trade barriers that are not in the form of tariffs. Nontariff barriers are much less obvious and transparent than tariffs, which over last 60 years were

brought down to an average level of 5% as a result of eight rounds of global trade negotiations. Impact of nontariff barriers is more devastating because they are less predictable and can be more easily disguised. Information about local tariffs can be found on every government, or customs office, internet site, while most of information about nontariff barriers can be rarely found in any official sources. Some governments made tries, more and less successful, to support local companies in exporting, by establishing units collecting data about nontariff barriers used by other countries. In many countries there are private companies, which research trade barriers existing in different parts of the world, to later sell the information and services to firms planning exports. There is a variety of nontariff trade barriers, counted up to several hundred even, and they can be divided into five major groups: Government participation in trade, Customs and entry procedures, Product requirements, Quotas, and Financial control. Apart from that qualification, there is also another one possible, which will not be used, but might be worth explaining: direct and indirect nontariff barriers. First group includes barriers that specifically limit imports of goods like quotas or embargoes. The indirect nontariff barriers are those, which seem neutral and harmless towards international trade, but in reality, their application makes imports more expensive or more difficult. (Onkvisit & Shaw 2009, 80-82; Doole & Lowe 2012, 45-46; Schaffer, Agusti, Dhooge & Earle 2012, 275)

3.3.1 Government participation in trade

The level of government involvement in trade varies from very passive to most active. We can divide it into three main types: Administrative guidance, Government procurement and state trading, and Subsidies.

Administrative guidance sounds harmless as a name, but can be a really big obstacle to overcome for companies exporting goods to other country. Many governments provide trade consultations to private firms, with an aim of making those companies conform to their guidance. They use the carrot-and-stick approach by utilizing its influence through regulations, recommendations, encouragement, discouragement, or prohibition. A famous example, of using such methods, is Japanese government forcing foreign firms to conform

to its guidance, by making local importers restrict foreign purchases to a certain percentage of local demand. This way if a company wants to be successful and sell its product, it has to abide to the governments guidance. In bigger countries, than above mentioned Japan, such methods can work on smaller, more local, scale thanks to more power possessed by different authorities. . (Onkvisit & Shaw 2009, 82-83)

According to Onkvisit & Shaw, government procurement and state trading are the ultimate forms of government participation in trade. It is caused by shift of customer, or buyer, role to the state, who now dictates what, when, where, how and how much to buy. Those decision and other commercial operations are controlled directly, by the government, or indirectly by the agencies under its control. These sorts of activities are happening in place of private firms or additionally to them. Such level of government involvement is most common in communistic countries, where the government is responsible for the central planning of the whole economy. Still such practises are not restricted by political systems. Buy American Act causes a situation, when U.S. government is required to give a bidding edge to domestic suppliers even though their prices might be higher. An international measure against state trading and government procurement was established as the Government Procurement Act, which requires the signatory nations to treat suppliers from other signatory countries equally with domestic suppliers. It means that the foreign government must choose the suppliers regardless of nationality and buy the goods with lowest price and that meet the given specifications in best way. It is also required in the Code that technical specifications must be adopted by purchasing agency towards performance and must be based in international specifications, national technical regulations, or recognized national standards. They also cannot be created, adopted or applied with aim of creating barriers to international trade. . (Onkvisit & Shaw 2009, 82-83; Schaffer, Agusti, Dhooge & Earle 2012, 315)

Subsidies are another method of government involvement into trade. In simple words they are governmental support of domestic producers so they can apply lower prices to their products and be more competitive. This policy is used to recover and develop particular sector, and increase competitive power of domestic producers. This sounds like, earlier mentioned, protectionism. Many other definitions and examples of use of this policy can

be found in different sources. GATT defines subsidies as “*financial contribution provided directly or indirectly by a government and which confers a benefit*”. According to Onkvisit and Shaw (2009), subsidies can take many forms like: “*cash, interest rates, value-added tax, corporate income tax, sales tax, freight, insurance and infrastructure*”. They also mention other subsidies like “*subsidized loans for priority sectors, preferential rediscount rates, and budgetary subsidies*” as “*various subsidy policies of several Asian countries.*” According to Kananen (2011), subsidies belong to trade barriers because “*they give domestic production an excessive cost advantage*”. In his book also we can find an opinion that country or region specific subsidies belong to the greatest barriers to international trade. From authors’ national experience, attracting foreign investors by lowering the taxes for given time, in Poland, is also a form of subsidy, with aim on developing local production of foreign products in spite of importing them. (Onkvisit & Shaw 2009, 82-83; Kananen 2011, 21.)

Another type of subsidies is called sheltered profit, which means that a country allows a corporation to shelter its profits from abroad. For example, it happened in U.S.A. in 1971, when the government allowed companies to form Domestic International Sales Corporations (DISCs). According to Onkvisit and Shaw (2009), DISCs cost U.S. Treasury more than \$1 billion a year in revenue. Still they were active until GATT decided that DISC was an illegal export subsidy. It was followed by a new U.S. law allowing companies fulfilling more rigorous requirements to form Foreign Sales Corporations (FSCs). The biggest user of this tool, Boeing Co., was able to avoid \$130 million in U.S. taxes in 1998, which was about 12 percent of its entire earning. In the end FSCs were also deemed illegal. . (Onkvisit & Shaw 2009, 82-83)

During the Tokyo round of Multilateral Trade Negotiations international agreement was negotiated, which recognizes government subsidies work against fair competition and free international trade. The document also includes the rules for applying subsidies for signatory countries, banning use of export subsidies for nonprimary products and primary mineral products. (Onkvisit & Shaw 2009, 82-83.) Primary products are

“*products of a farm, forest or fishery in its natural form or that had undergone such processing as is customarily required to prepare it for transportation and marketing in substantial volume in international trade.*” (Onkvisit & Shaw 2009, 83)

3.3.2 Customs and entry procedures

Activities that can be employed as nontariff barriers include customs and entry procedures. Mostly they can influence the level of complication and time needed to import the goods. They can be analysed from the point of: classification, valuation, documentation, License, Inspection, and Health and safety regulations.

Classification of a product might be different in countries as a result of decisions of customs officers at the time of entry. The duty status for the goods depends on the classification. The decision can be later changed and the overpaid or unpaid duties returned and charged accordingly, but the process takes time and requires a decent amount of documents and explanations as a proof for changes. Onkvisit and Shaw (2009), in their book, present the example of Sony Playstation 2 console being imported to Great Britain. Customs officer classified it in the category of video games, which meant a duty of 2.2% or about \$9 levied. The producer, Sony, tried to argue that the console is greatly improved in comparison to its predecessor and can be treated as computer specialized for games. They failed with their try and had to keep paying the duty. Question arises if they would have tried to push the subject more, would they manage to get the console reclassified and avoid the duty this way. (Onkvisit & Shaw 2009, 84-86.)

Product valuation is the next important stage of entry procedures, because depending on it the amount of all tariffs will be levied. Valuation is the duty of customs appraiser and can be done in different ways, depending on interpretation of the value of the product. Products value can be constructed in, at least, several ways. Onkvisit and Shaw present example of Japan, where commodity tax is applied to FOB factory price of Japanese cars, but American cars are valued on CIF basis, what adds an additional \$1000 to the retail price of these cars. (Onkvisit & Shaw 2009, 84-86.) (Terms FOB and CIF belong to the subject of incoterms – International Commercial Terms, which are meant to clearly explain the tasks, costs and risk connected with the transportation and delivery of goods. more informationa about subject can be found in internet or this researches' literature.)

Documentation might present another problem at the customs control. Depending on a country, the goods are entering, different documents might be needed and they can be complicated for an unprepared company. Without proper papers the goods might not be cleared through the customs and getting them delivered to the truck waiting at the border might cause enormous delays. For unprepared companies long and complicated documents, required by the customs office of a country, are the cause of slow product clearance, which might, in case of transport of living animals, plants or food, mean huge losses, if the goods start going bad or die. (Onkvisit & Shaw 2009, 84-86.)

Licenses and permits are required for imports of some goods. In some countries, for example in India, all imported goods require licenses. In case of U.S.A. for imports of distilled spirits, wines, malt beverages, arms, ammunition and explosives, a company needs to obtain the right license from the Bureau of Alcohol, Tobacco, and Firearms. Once again, depending on the country the legalities connected to obtaining an import license can vary. Some countries try to simplify the process, while others create harder to breach trade barriers by complicating it. (Onkvisit & Shaw 2009, 84-86.)

Inspections are another integral part of obtaining customs clearance. It is meant to determine the quality and quantity of goods as well as control if they fulfil other customs and entry procedures. During the inspection the goods are classified and valued for the tariff purposes. It is also meant to reveal if the goods are the same as stated in the documents and if they might require a license or permit of a kind. The goods are also checked if they meet health and safety regulations, and if they will not create a danger for customers on the importing market. The prohibited articles are prevented from entering during inspection. All the information about quantity and quality of products, and their description should be provided carefully and accurately. Mistakes will cause only delays and expenses. (Onkvisit & Shaw 2009, 84-86.)

Health and safety regulations are meant to protect the public and environment. They apply to agricultural products as well as chemicals, clothing, microwave ovens, different machines and many others. In most cases those regulations are set with the thought of protection against defective products, but it happens that they are used to hinder trade. Countries use safety and health unclearness as an excuse to block the imports of the product. One of the famous cases was blockade of import of Polish meat to Russian Federation as a result of importers' disbelief into exporters' veterinary inspections and level of regulations. The background is said to be partially political to enforce changes in relations between countries. (Onkvisit & Shaw 2009, 84-86.)

3.3.3 Product requirements

Every time the goods are being imported into the country, they need to meet the product requirements set by government of this country. One can often find them as a part of Technical Barriers to Trade in reports or official documents. Those requirements apply to many aspects, of the goods and they can be classified into: Product standards, Products testing and Packaging, labelling, and marking.

Product standards are set by each country to protect the health and safety of its consumers. They can be based on either physical characteristics or product performance, or both. Most of the developed countries use product standards as well as other trade barriers to hinder the imports of agricultural products from developing countries, which produce them usually at much lower costs, and to protect domestic producers. (Onkvisit & Shaw 2009, 87; Schaffer, Agusti, Dhooze & Earle 2012, 305-306.)

Packaging, labelling and marking are all put together into one group as they are interrelated. Products are required to be packed in certain way to ensure safety, provide necessary information and for other reasons. (Onkvisit & Shaw 2009, 87; Schaffer, Agusti, Dhooze & Earle 2012, 305-306.)

Product testing is used by governments to determine safety and suitability of products before they can be allowed on the market. Onkvisit and Shaw (2009) provide in their book examples of use of product testing as trade barriers in Japan. U.S. companies trying to export medical equipment and pharmaceuticals to Japan must deal with few-years-long testing of their goods, which is just long enough for domestic companies to develop competitive products. (Onkvisit & Shaw 2009, 87; Schaffer, Agusti, Dhooge & Earle 2012, 305-306.)

Product specifications, according to Onkvisit and Shaw (2009), might appear to be innocent processes, but in reality “can wreck havoc on imports”. They can be written in a way favouring local producers and aiming to keep out foreign suppliers. For example, they can be created to resemble domestic products or might be very detailed, to obstruct foreign suppliers, whom will not be able to satisfy specifications without unprofitable modifications. Earlier mentioned authors provide us with another example from Japan, where Nippon Telephone & Telegraph Company (NTT) after being forced to accept bids from foreign firms, used products specifications as built-in trade barriers. NTT prepared highly restrictive specifications with existing Japanese products in mind. An occurrence, when specifications were written only in Japanese language is described. It clearly shows how dangerous this type of trade barriers can be, if reading person would be interested in more details about NTT case, it is described in detail in the, earlier mentioned, source book. (Onkvisit & Shaw 2009, 87; Schaffer, Agusti, Dhooge & Earle 2012, 305-306.)

3.3.4 Quotas

According to Onkvisit and Shaw (2009), quotas are a quantity control on imported and exported goods. As import restrictions they generally limit the amount of foreign goods entering the country to specific quantities, and they serve to conserve foreign currency and protect local industry. Export quotas are used by state, for example, to preserve deficient resources. Import quotas, in comparison to tariffs, can be more restrictive and effective

because of less options how to deal with them. Comparing further, quotas are less desirable as they do not bring revenue to the state. To avoid these restrictions, some companies, for example, moved their production sites inside the region protected by the barrier or started exporting through different countries. In this research we discuss five types of quotas: absolute, tariff, voluntary, global & bilateral and auctioned, and another method called Local content requirement. (Onkvisit & Shaw 2009, 87; Kananen 2011, 20; Doole & Lowe 2012, 45; Schaffer, Agusti, Dhooge & Earle 2012, 275-276)

An absolute quota is the most restrictive type of the three. During the quota period, the number of imported goods is limited in absolute terms. It means that once the set number of products has entered the country, no more of these goods can be imported. Quotas can be either global or set on specific country. The most radical absolute quota is a zero quota, more commonly known as embargo, which bans trade of some or all products with set country completely. In some sources quota and embargo are divided with the explanation of the first being used for economical and second for political purposes. In this work such classification is not necessary although information itself is worth knowing. (Onkvisit & Shaw 2009, 87-88, Schaffer, Agusti, Dhooge & Earle 2012, 275-276)

Tariff quotas (or tariff-rate quotas - TRQs) is a method combining both quota and tariffs. It allows the entry of set number of the quota goods at a normal or reduced duty rate. Excess of the quota might be also imported, but at a higher tariff rate than in bounds of the restrictions. According to Onkvisit and Shaw (2009), the purpose of this method is to import what is needed and discourage excessive quantities. (Onkvisit & Shaw 2009, 88; Schaffer, Agusti, Dhooge & Earle 2012, 276)

A voluntary quota is a formal agreement between countries or a country and industry, in which there are supply limits specified for products, country and volume. In this work two types of voluntary quotas will be described: voluntary export restraint (VER) and orderly marketing agreement (OMA). VER is a direct agreement between government of importing country and foreign exporting industry, to manage the amount of goods being moved into the domestic market. In 1994 WTO members agreed to slowly eliminate

existing VERs and not to create new ones, with exception of possible VER for one industry per country. On the other hand OMA is created between two countries with aim to specify export management rules, the monitoring of trade volumes and consultation rights. Both methods allow avoiding GATT's rules (Article XIX), which require country to repay for the received quota and to establish that market protection on a "most favoured-nation" basis. Because of it, OMA and VER can be both counted into grey area (neither legal nor illegal practices with its morality in question). Both can be used in discriminatory way against countries and companies. Looking on OMAs and VERs big picture, it might seem illogical for a country, or a company, to voluntarily restrict its own exports, but it is done to avoid possible retaliation and alternative trade barriers being imposed on them. (Onkvisit & Shaw 2009, 88)

Global quotas are established on particular product indifferently of its country of origin. On the other hand, bilateral quotas are imposed on a product dependent upon the country of its origin. (Schaffer, Agusti, Dhooge & Earle 2012, 275-276)

Auctioned quotas are quotas sold to the highest bidder by the government to raise revenue. The right to import a set amount of goods is allocated to a company, which offered the best acceptable price. The imports of goods are still restricted but importing country also gains from it. (Schaffer, Agusti, Dhooge & Earle 2012, 276)

Local content requirement (LCR) is used, as an option, instead of quota restricting the number of goods imported into the country. In LCR the government requires that certain percentage of a good is produced domestically. It can be presented as a percentage of the good or its value. So it can be certain percentage of components used in production of the final product that needs to be domestically produced or certain percentage of the value of the good. (Radcliffe, 2011; Schaffer, Agusti, Dhooge & Earle 2012, 275-276)

3.3.5 Financial control

Country's financial control can also serve to restrict international barriers. Monetary policies are created and modified to control capital flow and as a result imports limited and local currency protected. There are four forms of financial control described in this research: Exchange control, multiple exchange rates, Prior import deposits and credit restrictions, and Profit remittance restrictions. (Onkvisit & Shaw 2009, 88)

Exchange control is method that controls the amount of local currency that might be taken abroad. According to Onkvisit and Shaw (2009), the reason, this method is used, comes from overvaluation of domestic currency and as a effect imports being paid in smaller amounts of currency. Buyers then try to use favourable, cheaper exchange to get items normally more expensive, or even unavailable, in the local currency. Exchange controls can also set limits to the amount and period of time, the exporters, can hold the foreign money from sold goods. The government, by controlling all the forms of the capital outflows of foreign currencies, makes it difficult to obtain imported products or make it harder to obtain them, for example, for higher price. As an example from past, communistic Poland can be given. With lack of products on the market, special shops were set, in which people could buy incomparably higher variety of products, but only for dollars. at the same time dollars could not have been obtained in any legal way on the territory of Poland. Of course there is also very important political background about the situation, but currencies control can be clearly shown in the example. (Onkvisit & Shaw 2009, 88-89)

Multiple exchange rates are another form of exchange control or obstruction to trade. There are two main functions of multiple exchange rates: to strengthen export and imports of chosen products, and to, at the same time, weaken them for other goods. That creates situation, in which there is no single rate for products and industries. Some will benefit from it and some will not, or will even loose. The scope of the operation can be restricted to imports only if needed. Government them sets different rates on chosen imported products, while keeping same level for exports. (Onkvisit & Shaw 2009, 89)

Prior import deposits and credit restrictions are barriers which operate by imposing certain financial restrictions on importers. The state might require a prior import deposit that ties up importer's money and as a result makes his operations harder in the financial aspect. Paying interest for the borrowed money and not being able to use them or to get interest earnings from the state. This is the unfavourable situation in which importer ends up. Credits restrictions are applied only to imports. Exports are able to get credits, often on favourable rates, from the government and cover their international operations, while importers struggle without ability to get loans or financial help from government, and need to borrow from private sector at higher rates. (Onkvisit & Shaw 2009, 89)

Profit remittance restrictions are another kind of financial control barrier on trade. Countries allow repatriations of profits, earned by foreign companies, on different levels. Some of them allow it fully – without restrictions, while other set progressive taxes to block the profits earned in domestic operations from being sent to parent organization located abroad. Another type of approach is setting up delays in permissions for profit expatriation, to make the money stay in country as long as possible. Multinational corporations have found many, in most cases legal, ways around this barrier, for example: countertrading, charging subsidiaries with higher prices and fees for the products, and currency swaps with another company. (Onkvisit & Shaw 2009, 89-90)

3.3.6 Private barriers

According to Onkvisit and Shaw (2009), private barriers are “certain business practices or arrangements between or among affiliated firms”. As examples of such, they present Japanese *keiretsu* and Korean *chaebol*, which both operate in similar fashion. In the *keiretsu* system companies own small portion of shares in all the other companies belonging to the same group. To protect these companies from takeovers and market fluctuations, the core of the group is a bank. *Keiretsu* can link manufacturers, suppliers, retailers and customers, who will support each other and prefer internal cooperation than

foreign partners. Earlier mentioned authors, present example of Toyota Motor Corporation, which provided \$83 million to help, a money-losing, trading company Tomen Corporation. According to the tradition of keiretsu subsidizing other members of this system is normal. (Onkvisit & Shaw 2009, 90.)

Japan and Korea are not the only countries in which private barriers can be met. Similar systems can be observed, for example, in: Germany - Deutsche Bank, United Kingdom – Virgin Group, India – Tata Group, and U.S.A – most of media companies. Tariffs are easy to find and deal with. Nontariff barriers are less transparent and can be hard to deal with, without help of specialists or special preparations. Private barriers lack any transparency, as one can end up in a situation when a potential customer refuses to explain why he not wants to engage into trade. It can be said that WTO managed to normalize the situation of tariff barriers in many regions and is concentrating on dealing with nontariff obstructions currently. Private barriers will probably become the next major challenging target for this organization. (Onkvisit & Shaw 2009, 90.)

3.4 Natural barriers

In his book, Kananen (2011), introduces natural barriers as culture, customs and habits of inhabitants of a country. Those characteristics are more important in the consumer goods market than in industrial product market. Still we can always consider them as factors in dealing with companies of the market and their staff. Natural barriers might also include geographical specifics of a country. The harder or longer the transport, the more one has to pay for it. Rise of transportation costs mean changes in valuation of goods during entry procedures and higher levies. Asymmetric knowledge is another natural barrier. Companies, or rather people working in them, tend to have more knowledge about local market than the foreign ones, and information gathering incurs more costs to trade operations. People's attitude towards different illegal activities can be also another example of this kind of trade obstructions.

In the end, the definition of natural barriers can be set as: direct or indirect barriers to trade, which can be created without purpose of obstructing trade and are connected with their nature to the country specifics like history, culture, geography and political situation. It is not a perfect definition, but shows the main idea of what a company might be dealing with when exporting goods to different country.

(Kananen 2011, 22-23; International Encyclopedia of Social Sciences, 2008)

4. THEORY OF CREATING INTERVIEW QUESTIONS AND INTERVIEWING

For the purpose of the interviews, taken for this research, it became necessary to introduce some basic theory about interviewing and creating the right questions for it. The form of an interview was chosen because of small amount of samples, unfit for a questionnaire. Also it allowed getting information, which might not be obtained by too precise questions and staying with the questions asked.

When one creates questions for an interview, he needs to consider the respondent to be able to answer them. That means that respondent must:

- understand the question
- have or retrieve information needed to answer the question
- transform relevant information into form needed to answer the question
- provide the answer in form required.

For the respondent to be able to cover those points in most useful way, the interviewer must ask:

- the right question, based on well established concept of the data one wants to get,
- questions that are clearly understood, which means, without using, or properly explaining, hard vocabulary, technical terms, avoiding imbedded assumptions and many questions at the same
- questions that the respondent can answer, which means that he posses the information and questions should be created to help him to find in memory and provide the data
- questions for which answers can be appropriately provided, it means that the response task is clear and obvious and response options should be match the questions
- questions that respondents are willing to answer accurately, so that respondent does not have to worry about being seen in negative light or about being misinterpreted. One should look closely on introductions, vocabulary, context and response alternative to eliminate risk of putting answering person in situation when he might

modify the answer for the sake of image or understanding. (de Leeuw, Hox, & Dillman, 2009, 136-160 & 201-220.)

Interview in its nature is similar to a conversation, with the difference of prepared questions, which lead the discussion, and with the specific division of tasks, where one asks and the other answers. There are some basic rules that should be followed in interviewing, and those are:

- respondents role should be clarified, it should be explained for what purpose the interview is taken and what is required from respondent
- Introductory letter should be sent earlier explaining the general objectives and how the information gained will be used. It also allows one to prepare some additional data for the interview.
- the correct instructions should be given at the right time, general at the beginning and more specified along the interview and with new parts and tasks of it
- reinforcement and feedback needs to be given by interviewer, to inform the responder how one is managing his own role as well as to show appreciation for following the instructions
- Questions are to be read as they are written in the questionnaire, because small changes in phrasing the questions can have an effect on the answer.
- clarifying an misunderstood, or not understood question, must be done carefully without steering the responder into any kind of answer
- For clarification of answers or directing it into the planned form, one should ask additional questions. The process is called probing and it is critical that interviewer does it adequately, without directing answers.
- Answers should be correctly recorded. Depending on the type of interview and questions, different methods are used. Sound recording is an effective method as it allows analyse the answer and results more deeply than just from written records. (de Leeuw, Hox, & Dillman, 2009, 136-160 & 201-220.)

Face-to-face interviews can be considered as an important and efficient manner for collecting data for researches. It allows the interviewer to get more information from responder than in other forms of research, but also brings the risk of influencing the

answers. The person who prepares the questions, needs not only to prepare the correctly but also to do the same with person who is going to lead the interview. (de Leeuw, Hox, & Dillman, 2009, 136-160 & 201-220.)

5. TRADE BARRIERS IN RUSSIAN FEDERATION

As it was mentioned in the introduction to this work, the next parts are based on interview with businessman, who was actively taking part in business between Finland and Russian Federation over last 40 years and is still doing it, on national reports about trade barriers in international trade, and on case study of local company who had interesting business experience with country of this works' interest. Additional sources, in form of internet sides, both governmental and private, and book on business security in Russia, were used as well.

Earlier mentioned national reports are:

- “Barriers to Trade Encountered by Finnish businesses in 2009 and Means to Address them” by Ministry for Foreign Affairs of Finland,
- “Russia Legal Provisions” compiled by Swiss Business Hub Russia from August 2012,
- “Report on Technical Barriers to Trade: Russia” by the Office of Untied States Trade Representative from April 2013,
- “2013 National Trade Estimate Report on Foreign Trade Barriers” by Office of Untied States Trade Representative from April 2013.

First report, even though being relatively old, is the most direct form, based on survey sent to Finnish companies, showing problems of Finnish – Russian trade and around which areas are they concentrated. It requires updates, as no newer report was released, as of beginning of May 2013, and for that purpose other reports concerning different nations in trade with Russian Federation were used. The Swiss report is the only one compiled by institution not directly connected to the government. Well written and as up-to-date as it could be for the release time. The last two reports, from U.S. Trade Representative Office, are the most accurate with news documents, but, as designed, represent American point of view. This work does not use all the parts of the U.S. reports, but only the parts about

Russia, as they are written originally on global scale. All those reports together build some worthwhile set of knowledge and it is advised to read them whole for better understanding.

There is a lot of information accessible from different sources, if one knows where to look, but the situation is constantly changing and they can easily get old. The data collected in this research is valid at the time that it is written down. As it is written in further parts of this work, situation in Russian Federation is changing constantly and information presented in here might be invalid in a matter of few years, if not less.

For constant source of fresh information, Finnish companies can check on:

- Ministry for Foreign Affairs of Finland (formin.finland.fi). One can find decent, up-to-date information concerning trade between Finland and other countries here. News are published by a part of government so their reliability is rather high. Companies can also search out development policies and report barriers encountered in trade.
- Global Trade Alert (www.globaltradealert.org). A site co-ordinated by the Centre for Economic Policy Research, an independent academic and policy research think-tank based in London, UK. As far as it was checked the information provided is for free. The news seem to be up-to-date and well checked even as they come from different sources. They are also marked in a simple way dependently on their influence on international trade. Information can be searched easily, by countries influenced by changes in news, by countries introducing those news, by type of measure, or by different mixes of those three. This creates a clear list of information needed.
- Finpro (www.finpro.fi). According to their own site it is “... the national trade, internationalization and investment development organization in Finland”. Founded in 1919 by Finnish companies, currently provides consultations on different levels of business internationalization as well as organizes projects and programs promoting domestic firms. On Finpro site, one can find news and information concerning opportunities for business, events, media and press

releases. The network seems big as organization claims 550 members and wide number of connections and co-operations.

- Trade Market Access Database (madb.europa.eu) handled by European Commission. The site provide accurate news about changes influencing EU exports and imports, as well as information about designated country, like requirements, levels of tariffs and trade statistics. In a way this site can be treated as broader view version of Ministry for Foreign Affairs of Finland. To access some data one needs to be tracked in EU territory.

5.1 Russian Federation and Finland

Russian Federation is an important business partner for Finland. Being a non-EU country, it belongs to top three export and import countries for Finland (Ministry for Foreign Affairs of Finland 2009). The value of both operations during the period of years 2007 till 2012 can be seen in TABLE 3 below. It was very high in 2007-2008, dropped in 2009 due to economic crisis in the world, and is rising later with small fall in 2012 in imports due to some restrictions being implemented. Still, exports, which are the main concern of this work, after the crisis in 2009 are once again rising.

TABLE 3 Trade between Russia and Finland during 2007-2011 (Sources: Finpro 2012; Finnish Customs 2013)

Million	2007	2008	2009	2010	2011	2012
EUR						
Finnish Exports	6724.4	7618.1	4028.1	4715.9	5,336.7	5,688.2
Finnish Imports	8411.2	10174.4	7035.1	9217.2	11,319.4	10,582.4
Trade Balance	-1686.8	-2556.3	-3007.0	-4501.3	-5982.7	-4894.1

Another table (TABLE 4) shows the top ten Finnish export products in years 2011 and 2012. According to it, there are no changes in the products being in top ten apart from the position they occupy. Place in the top ten depends, for example, on trade barriers emerging and disappearing. Export of some goods becomes harder, because of higher tariffs or some nontariff barriers, and as a result the number of goods crossing border is smaller. It can as well happen the other way around, some barriers are lowered or disappear completely and the amount of goods rises. Of course the exchange of goods is not a stable number each year and there are many other things influencing the position on this list. Still, trade barriers depending on the level of appliance can cause from minor or major changes in the movements of goods through the border.

TABLE 4 Top ten Finnish Export Products (SITC 2 level) in 2011 and 2012 (Sources: Finpro 2012; Finnish Customs 2013)

2011		2012	
Product	Value of Exports (million EUR)	Product	Value of Exports (million EUR)
Paper, paperboard, and articles thereof	489.9	Paper, paperboard, and articles thereof	527,9
Medicinal and pharmaceutical products	469.9	Machinery for specialized industries	491,5
General industrial machinery	403.8	Medicinal and pharmaceutical products	459,8
Machinery for specialized industries	378.2	General industrial machinery	384,4
Telecommunications and sound recording equipment	302.6	Petroleum and products	335,2
Electric machinery and parts	295.4	Electric machinery and parts	333,7
Petroleum and products	256.0	Dairy products and birds' eggs	240,7

Plastics in primary forms	247.4	Plastics in primary forms	237,2
Dairy products and poultry products	218.9	Telecommunications and sound recording equipment	226,9
Road vehicles	200.3	Road vehicles	187,9

Russia is an enormous, continuously developing market. It is the biggest, by area, country in the world. Being able to export to Russia opens, for Finland, the ground way to south-east of Europe most of Asia. As a federation it unifies many regions (83 including Moscow and Saint Petersburg, which are considered as regions themselves), which are different not only in geographical matter but also by nations living there and their culture. For example, due to historical reasons Republic of Karelia is more similar with its culture to Finnish, while Republic of Tatarstan is similar to Islamic countries. Being a Federation also influences the government authority and laws. There are three levels of power:

- The federal country with Constitution, federal laws, federal constitutional laws, presidential decrees, government resolutions and other regulatory acts.
- The states, able to enact legislation in those areas which are not in authority of the federal country. Some regions even have their own constitutions. Still, all these laws must comply with federal law.
- Municipalities.

This all creates small differences, connected to, either or both, law or culture, between each region and it is important to know what one can meet in his destination. (Swiss Business Hub Russia 2012)

According to IMF, Russian Federation is the ninth largest economy in the world when it comes to the nominal value and sixth largest in terms of purchasing power parity. In 1998 Russia experienced, so called, “Rouble Crisis” and then was hit by 2008-2009 global crises. Between those two was the strongest decade of growth, only shadowed by second crisis reducing long-term trajectory of economy and presenting more development challenges. In Human Development Index, which is a composite statistic of life expectancy, education and income indices, Russia is on 55th place (in 2012) with score of

0.788 which puts it in High Human Development group, and in comparison to previous years the situation is getting better. In other indexes, especially concerning corruption, Russia ranks highly 133th place of 176 countries (high corruption level). In Global Competitiveness Index, which compares competitiveness of countries on global scale, Russian Federation takes 67th place of 142 countries (the better the place the better the competitiveness), which is around the middle. (Finpro 2012; International Trade Centre 2011; Transparency International 2013)

The political situation in Russia is stable (Finpro 2012). In 2012 Vladimir Putin was re-elected as a president, after cadence as a Prime Minister (a person can be a president for two consecutive cadences only), for six years. The duration of a presidents' cadence was changed while he was holding the position of Prime Minister. Some opinions state that Russia is stuck with President Putin for twelve years. From one point of view that creates political stability in country, which practically ensures that policies planned earlier by the government will be introduced and developed. On the other hand, changes on, so called, "high seats" could bring a shift in Russian attitude towards other countries and their products, for, either, better or worse.

Regulations concerning importing goods are also influenced by membership of Russian Federation in different international organizations. One of the biggest changes were started by Russia officially joining WTO on August 22, 2012, as 156th member country. Russian trade regime was pledged to be liberalized, to create an open and fair trade market with increased transparency and predictability. That is another step towards integration of this major economy into world market. Russia became a party to GATT, along with its related multilateral agreements on trade in goods, and other regulations concerning trade in services and intellectual property. (Swiss Business Hub Russia 2012; Office of United States Trade Representative 2013a, 2013b)

WTO membership means that Russia must guarantee most-favoured nation status to all other members of the organization. There is place for exception, in this rule, only within structure of free trade agreements, customs union agreements and Generalized System of

Preferences (tariff preferences for developing and least-developed countries). As it was already mentioned in this research, WTO's objective is to reduce tariff and nontariff barriers, and restrictions to market access. Russia needs to gradually bring tariffs to the level accepted by the international organization. All the nontariff restrictions need to be brought into compliance with WTO principles. Trade barriers and obstructions not consistent with WTO viewpoint and regulations will no longer be allowed. Useful information about Russian Federation in WTO can be found on official page (www.wto.ru), where both basic and more in-depth data can be found along with news concerning the subject. (Swiss Business Hub Russia 2012; Office of United States Trade Representative 2013a, 2013b)

Russian Federation is also a Party to Russia-Kazakhstan-Belarus Customs Union (CU). In 2010 CU adopted a common external tariff (CET) with most of the tariffs rates based on the level that Russia used. Customs Union developed even further towards Common Economic Space (CES), by abolishing all customs points on internal borders and allowing free flow of most of the goods between CU members. The Union was influenced by Russia joining the WTO and adopted Russia's WTO schedule of tariff lowering. Next step, for which the CU is aiming, is unification of economy and politics, and creation of Eurasian Economic Union, based on EU and best values of Soviet Union, by 2015. As a result of membership in CU, Russia's tariff and nontariff import measures, as well as customs policies are based on the CU laws and regulations. Even though Russia does have great influence in the customs union, it still is bound by its legal entity from free-will changes and creation of trade barriers. (Swiss Business Hub Russia 2012; Office of United States Trade Representative 2013a, 2013b)

Russian Federation signed an Agreement on Partnership and Cooperation (PCA) with European Union. It expired in 2007, but the agreement has been automatically renewed each year. During EU-Russia summits in Khanty-Mansiysk (June 2008), Rostov (June 2010) and Brussels (December 2011) the intention to create more complete framework for co-operation between Russian Federation and European Union was reconfirmed. The intensification of negotiations is expected to after the completion of Russia's WTO accession. (Swiss Business Hub Russia 2012)

Russian Federation actively seeks full membership in The Organisation for Economic Co-operation and Development (OECD), which mission is to promotion of policies aiming to improve economic and social being of people world-wide. Russia wants to enhance its role in other international organizations and forums. (Swiss Business Hub Russia 2012)

5.2 Trade barriers in Russia

The survey, conducted in 2009 for the purpose of creating the report of Ministry for Foreign Affairs of Finland, identified over 40% of all obstacles, in trade with external (non-EU) markets, encountered in Russian Federation. For a good comparison, second was China with 11.5% of all problems reported. The survey results also show that Russia features most prominently in almost all type of products and trade barriers types. The results, when comparing to the ones from similar survey done in 2005, are very similar in many places and tend to overlap. This part of work is dedicated to putting together information, from different sources, about trade barriers which can be meet while exporting goods to Russian Federation. (Ministry for Foreign Affairs of Finland 2009)

According to the same survey, in Russia, the main source of problems is unpredictable, slow and inconsistent customs procedures. Next are high customs tariffs and technical barriers to trade, which occur in form of different certification and document requirements. All sectors of business in Russian Federation were mentioned as being problematic, with forest industry, machines and equipment, building and interior design pointed out as ones in which the problems are encountered the most. Other problems encountered were connected to business environment, with matters like corruption and bureaucracy, and freedom of movement of people, concerning visas and work permits and their long processing periods. (Ministry for Foreign Affairs of Finland, 2009)

Trade barriers possess different level of transparency. It means that the higher the transparency of a trade barrier, the easier it is to find it, recognize it and deal with it. Obstructions to trade with the lowest or zero transparency might be find out about just the moment, when an exporter tries to cross the border with goods and realizes that it will require much more time or money, or will not be possible at all. The sooner the trade barrier is found the better it is.

5.3 Tariff barriers

Tariff barriers lose their significance along the time with globalization and progress of creating free international market. Nowadays, their transparency is much higher than in the past. In Russian Federation, as a part of CU, a company can meet with three types of customs duties tariffs used: ad valorem, specific and combined. Finnish report from 2009 was pointing out high tariffs as problems mainly met in Russia. According to its survey this type of trade barrier was the second most commonly reported issue with countries outside the EU and European Economic Area (EEA). The situation changed since then for more stable. Russian Federation is influenced not only by the official CU tariff rates, but also has to set them according to WTO regulations. One of Russia's commitment on accession is to bring all the tariff rates to a certain, maximum tariff ceilings subsequently reduced to a final legally binding tariff ceiling. According to the information from Swiss report, this tariff ceiling for all products will be, on average, 7.8%. For comparison, the average in 2011 was 10%. (Ministry for Foreign Affairs of Finland, 2009; Swiss Business Hub Russia, 2012)

Imports to Russian Federation are a subject to VAT on the level 0%, 10% or 18%. In U.S. government's National Trade Estimate for Russia, issue concerning VAT refunds for Russia-based exporters, are mentioned. The whole process is described as overly complicated and as sources of significant fraud, leading often to court. Similar problems are described in Finnish report from 2009. VAT refunds are hard or even impossible to obtain, which can be treated as a trade barrier. For certain goods, like alcohol, there is an

Excise tax as well. Earlier mentioned report states that, this tax for alcoholic beverages, is constantly growing. Russian government has also established in 2012 a “recycling fee” for automobiles and certain wheeled vehicles. Importers and foreign producers of earlier mentioned products will have to pay an addition fee, dependant on the age and size of the engine, projected to cover the cost of its recycling. Officially is it only a temporary fee justified on environmental grounds, but it is also mentioned as a counterbalance for reduction of tariffs on imported automobiles caused by Russia’s membership in WTO. For part of Finnish companies more important might be the fact that a suggestion of establishing similar recycling fees for agricultural machinery was given by Vladimir Putin. (Office of United States Trade Representative, 2013; Swiss Business Hub Russia, 2012) Question arises if, in place of reduced tariff barriers, other less transparent obstructions to trade, similar to, or even more complex than, mentioned earlier fees, will emerge?

During this research, useful sources of information concerning taxes and tariffs were found. The free access, to at least a part of the knowledge, make those sources very promising for a company, which want to obtain data for possible export of goods to Russian Federation. Those sources are:

- Alta-Soft is a Russian company specializing in software for customs brokers. On their site one access an online export calculator in English. This tool shows the tariffs that have to be paid on importing goods to Russia as well as possible requirements on the product. The calculator also has other option, like calculation of contract. Along with that a good amount of explanations and simplifications can be found. Calculator can be accessed from the address www.alta.ru/taksa-online/en/
- Nalog.ru is an internet site of Federal Tax Service of the Russian Federation. It provides a great amount of information about taxes in Russia and about opening a subsidiary or representative office there, in English. These possibilities have not been discussed in this work, as it is believed, by the author, that first stage, if not final, for small and medium companies is direct export and sales to Russian companies. Entering Russian market could be a subject for a separate work itself. English version of the site can be found on eng.nalog.ru. The site provides many

other possibilities, which were not analysed close, due to not being directly connected to the subject.

- Earlier mentioned Trade Market Access Database (madb.europa.eu) also provides information about duties and taxes on exported products.

5.4 Nontariff barriers

According to the Swiss report, Russia uses the classic instruments, based on different treaties and federal law, to control or restrict imports and exports. Those measures will soon have to be brought into compliance with WTO rules. More detailed description is in each group's part. (Swiss Business Hub Russia, 2012)

5.4.1 Government participation in trade

Since August 2012, Russian Federation is a member of WTO. At the same time this country is not a signatory on WTO Agreement on Governmental Procurement (GPA). Russia committed to become an observer to the WTO Committee on Government Procurement once a member of the WTO, and to initiate negotiations for accession to the GPA by 2016, but still has not requested the observer status. So far everything is based on a promise, done by Russia, that its agencies controlled by government will award contracts according to published laws, regulations and guidelines, and in transparent manner. So far cases of unfair contract awarding were common in Russia and usually based on bribery or personal connections. (Office of United States Trade Representative, 2013)

Finnish report states that, in Russian Federation "subsidies and discrimination against foreign actors are encountered". U.S. report presents examples of Russian subsidies in use. It mentions three areas of business being supported by government: pharmaceuticals, telecommunication equipment, and aircrafts and aircraft equipment. Subsidies show in

form of possibility of price adjustments, price preference for local producers in governmental auctions, investments restrictions, and governmental assistance provided on strict rules set to favour local producers, and as requirements for companies on market that will force them to make investments into local producers and products. (Office of United States Trade Representative, 2013; Ministry for Foreign Affairs of Finland, 2009)

State corporations are another example of heavy subsidising. Specific legal constructions resulting in preferential treatments of them and board members including representatives of state interest make the situation uncompetitive for private enterprises. Russian Government created a list of 196 companies which are of national significance and cannot be privatized. The general privatization plan in Russia seems to be slowing down and government intends to retain controlling stakes in major Russian companies. The purpose of such actions could be tight control over country and protection from country being dependant or controlled by corporations, but it is only a guess and real reasons and aims are known only to the governmental top. (Office of United States Trade Representative, 2013)

5.4.2 Customs and entry procedures

According to results of survey in Finnish report from 2009, 16% of all identified barriers to trade, outside of EU and EEA, were linked to customs procedures. Also over half of those problems were encountered cross-border movement of goods to and from Russian Federation. There were connected to troublesome documentation requirements, complicated bureaucracy and slow process of customs clearance. The U.S. report criticizes Russia, which, according to U.S. exporters, does not publish all regulations, judicial decisions and other administrative rulings of general application to customs matter. It is true that finding all this information is not easy, but it is possible. Those publications could be done in more collective and clearer way. (Ministry for Foreign Affairs of Finland, 2009; Office of United States Trade Representative, 2013)

As a rule, the goods imported into Russian Federation need to be declared by the importer or customs representative. Foreign companies, including their branches and representative offices, cannot declare goods for general trading purposes. They can do it only for a limited number of cases. When the goods cross the Russian border (it is also Customs Union border at the same time), the carrier provides the basic documentation to the border authorities and then the goods follow under customs control. Some sources mention varying documentation requirements and different levels of control between the border-cross points. Russian Federation, in its WTO commitments, has committed to publish all trade-related measures and implement notifications, public comment, and other transparency requirements for wide range of import and export related measures. It is understandable that everything cannot be implemented immediately, especially with country as big as Russia. Decision made in Moscow needs time and preparations to reach customs offices on the border. It is typical that different regions implement changes at a different rate of time because of varying speed of work of local authorities. (Swiss Business Hub Russia, 2012; Office of United States Trade Representative, 2013)

Another subject often mentioned by the sources, from this type of barriers, are licenses and permits. In Russian Federation, in most cases, licenses are granted at the national level by the Ministry of Industry and Trade. Sadly the official site of the ministry is prepared practically only in Russian language. English part has only minor information about minister and structure of ministry. U.S report mentioned that simplification of licensing regime happened after Russia joined WTO, but the process to obtain an import or activity license remained burdensome and unclear. Similar information was presented about service licenses, which are also difficult to obtain. Another case is about Russia removing requirements of licenses to import some products, but establishing new, or complicate existing, activity licenses necessary for storing or distributing the products. Example of such case is alcohol license. When Russian Federation joined WTO, it removed the requirement of import license for alcohol, but activity license for storage and sales of this product stayed in forms that hinder the trade. (Office of United States Trade Representative, 2013; Swiss Business Hub Russia, 2012)

Information about customs procedures, laws and requirements can be found in different sources:

- “Russia Legal Provisions”. Swiss report used as a source for this research provides accurate information in a very law oriented basis. The form is very approachable and person, not specialized in the subject, can obtain data without getting through a lot of complicated terms. One must take into consideration that report is going out of date along the time. Organisation which prepared it, Swiss Business Hub Russia, is a partner of a specialist company helping Swiss firms to find business partners in the world. The consulting company can be found on www.switzerland-ge.com/en
- Official site of Russian customs. Most of the information is in Russian language, but site got also English version, which provides quite decent amount of information. It can be found on: www.customs.ru/
- There are companies which provide information and help concerning exports/imports to Russia and customs operations. In most cases one has to pay for those services, but they are provided on expert level. Such companies are, for example, Finpro and Janprofil. They can be easily found on the internet.

Next form of trade barrier was hard to place into any category. In the end it was decided to be qualified as entry procedures. This barrier is connected to movement of people through the border. For long years the process for obtaining a visa was problematic and time-consuming. In 2010 European Union and Russian Federation have started negotiations on the abolition of visa requirements. No decisive changes were made yet in this subject. Visa and eventual permits issues needs to be handled carefully. Use of wrong type of visa can lead not only to uncomfortable situation and heavy fines, but as well to future problems in obtaining those documents. (Swiss Business Hub Russia, 2012; Ministry for Foreign Affairs of Finland, 2009)

5.4.3 Product requirements

Technical regulations present a major barrier for trade with Russia. National standards and verification procedures, in that country, are different from other national, regional or international standards, which can be used only for marketing purposes or gaining approval. Foreign certificates are not accepted in Russia. Certification system, GOST R, is managed by The Federal Agency of Technical Regulations and Metrology working under Ministry of Industry and Trade. Useful information in English can be found on the agency's official site - gost.ru. (Swiss Business Hub Russia, 2012; Ministry for Foreign Affairs of Finland, 2009)

Product, which have never been imported into, or produced in, the territory of Russian Federation, or CU, needs to be registered. It is only a one-time operation and it is valid for a product regardless of who produces or imports it. Registration includes product testing. (Swiss Business Hub Russia, 2012)

Any sales contracts done with Russian importers should clearly assign the responsibility and costs of certification and registration. One should remember that it is easier to certify a products locally than from abroad so the responsibility could be assigned to Russian partner, but that would make those certificates valid only for him/her. If the exporter wants to control Russian distribution channels, then it would be for the best to obtain the certification in exporter's name. (Swiss Business Hub Russia, 2012)

An U.S report describes uses of labelling requirements as trade barriers. In October 2012 the CU Commission published, without notifying WTO, a revision to the Technical Regulations on Food Products Labelling, which imposed many labelling requirements. Implementation of those rules is planned for July 1, 2013 and old products are allowed into market circulation till February 2015. According to the U.S. side some of the changes are too unclear and other go beyond earlier established guidelines. (Office of United States Trade Representative, 2013)

5.4.4 Quotas

Under the WTO rules, quotas are prohibited. Still, on 23rd August of 2012, CU Commission (the names have changes over time but to not confuse readers, this one will be kept) issued Decision, which imposed import quotas on stainless steel pipes and tubes, in place of special safeguard duties. These quotas will be in force until November 2014. The date of issuing decision might seem interesting as it is exactly a day after Russia officially became a member of WTO. Of course the preparations were started much earlier for both processes, but such actions put Russian Federation in very unfavourable light. Russia also maintains tariff-rate quotas for some of the agricultural products like beef, pork, poultry, and selected whey products. For this year (2013) TRQs were adjusted to Russia's WTO obligations, creating new level of in-quota and out-of-quota tariffs. This example shows that WTO membership actually means something to Russian Federation. Adjustments and changes are made, but is it the speed at which it should be done? The schedule for changes is set by Russian Federation and WTO, but everything happening according to it seems questionable. (Office of United States Trade Representative, 2013)

Domestic content requirements also belong to the category of quotas. Russia created two programs, first in 2005 and second in 2011, which kept regime in automotive sector with domestic content requirements and production targets. Second, being more strict, required domestic production volume on the level of 300,000/350,000 units for each manufacturer. When joining WTO Russia agreed to end both problematic programs by July 1, 2018 as well as limit the domestic content requirement for automobile producers. (Office of United States Trade Representative, 2013)

5.4.5 Financial control

There is not much information, concerning this type of barriers, to be found. In Swiss report, one can find information about abolished laws, which hindered the trade. Currency regulations stayed in form of provisions permitting the authorities to monitor and control cross-border transfers of money. They still tend to create administrative burden and make the money operations slower than, for example Switzerland. Russian and foreign citizens are allowed to take unlimited amount of money through the border, in both directions, but if it exceeds 10 000 USD or its equivalent then the necessity of customs declaration is arises. General advice, for companies, is to use dollars or euro as a currency for trade with Russian Federation. (Swiss Business Hub Russia, 2012)

Financial control is also used on imports of alcohols. Apart from other instruments like growing excise tax, special labels requirements and licenses on warehousing, prior import deposits are required from companies importing this kind of product into Russian territory. It means that all customs duties, excise taxes and VATs on alcohol, must be paid in advance, using a bank guarantee and deposit. Fixed guarantee amounts were set to deal with situations, when value of fees and duties are not known at the moment of making those deposits. In case the set amount was higher than the real one to be paid, the refund was paid. According to U.S. report, those refunds are sometimes delayed, even, up to seven months. This creates a situation when company's money is frozen on an account of governmental bank and do not bring any profit and cannot be used for any other purchases. It limits the trade volumes for firms selling alcohols, as they have to block part of money for the purpose of deposits. (Office of United States Trade Representative, 2013; Office of United States Trade Representative, 2013)

5.5 Private barriers

Private barriers are the least transparent trade barriers. It is hard to clearly define if one has even encountered it or was it just a simple problem with customer. If we would be talking about Japan, which was mentioned in theory, it would be comparably easier to describe

existing private barriers. This type of trade obstructions in Russia is not always clearly distinguished from nontariff government participation, illegal activities and natural business culture.

None of the sources used in this work provide any direct information about private barriers. Interview with Finnish businessman had some implications of them, in form of names used by Russian companies like “ours”. Russian business culture is an informal one and good relationship might bring forth more business opportunities than superior quality and very low price. That is the point when private and natural barriers mix up and it is not certain to which group it should be qualified. Companies might simply refuse to cooperate with foreigners without explanations why exactly, while the reason is loyalty towards current business partners.

Another such mixture is cooperation between local authorities and companies, when one supports other by creating hardships for foreign firms. Cause for such behaviour would be based on protection of local businesses and existing networks. It cannot be directly classified into private barriers, because it seems similar to subsidies, but it is done on much smaller scale and not always officially.

Local market can also be “protected” by organizations, which are not strictly legal or which activities are illegal. In most cases stereotypes would bring forth the name mafia, but it is not the only possibility. As the legal world is changing, the same is happening with the illegal organizations. They exist as normal businesses, which indirectly control the local area or market. The interviewed person mentioned that such organization are usually not interested in small operations and rather act in case of big money movements. Exceptions still exist and in case it does happen it is easier to let the Russian side of business deal with it.

5.6 Natural barrier

As it was mentioned in theoretical part, natural barriers are connected to culture, politics and history of a country. It is hard to say if something is clearly a trade barrier, if it was not created as such. For one company difference in culture can be an obstacle hard to pass, while for other this difference will not even exist or will be insignificant.

In the results of survey in Finnish report from 2009, of all reported trade barriers around 10% were connected to business environment in the country of operation. In this category can include corruption, bureaucracy, political and economic uncertainty. The report mentions that such problems are typical in least-developed countries, but almost 70% of them were encountered in Russia. (Ministry for Foreign Affairs of Finland, 2009)

Russian business culture is different than Finnish and it might cause many misunderstandings or problems. Russians are proud of their culture and long history. They treat hierarchy seriously in both business and personal life. In first case it is visible by centralized and directive management. In second it can be seen in respect shown towards the elders. In business there is place for informality between the sides and one can realize that relationship is more important than the business deal. Business meetings can be long and often interrupted, patience is required in dealing with those obstacles. (FINPRO, 2013)

As it was mentioned earlier, in Russian Federation there are many nationalities and separate areas might have culture bit different from each other. To avoid making mistakes and bypass natural barriers of cultural background it is good to study the nation. There are many sources available, either as books or internet sites. Already mentioned before Finpro, provides some basic information about culture. Also it is worth to check out The Hofstede Centre official site on geert-hofstede.com/russia.html. One can find useful information allowing to understand deep drivers of a culture and maybe to bring a person closer to understand it.

Next trade obstacle that was classified into natural barriers is business security. It is a very wide term and we can divide it into three subgroups with short description to make it more understandable:

- Business partner: cheating, company overtaking
- Illegal activities: bribery, crime organizations,
- Intellectual Property: copies, court cases

Those groups do not cover the subject completely but represent the most barrier-like elements. Choosing wrong business partner might end up in being cheated, which might leads to financial losses and, in worst case, to overtaking of a company. Illegal activities can vary from promises for faster business if paid, to being threaten if not. Intellectual Property is not well protected in Russia and typically it takes 1 to 2 years to find a copy of own product on the market. Taking case to the court might not help if, for example, the law breaking company is local and might get protection from the authorities, in which case the prosecution will be neglected. Registration of trademarks and patents in Russia is important but that does not ensure total safety as the enforcement of law concerning intellectual property is considered widely as inadequate. (Iivari, 2008; Office of United States Trade Representative, 2013; Swiss Business Hub Russia, 2012)

5.7 Interview

This interview took place in April 2013 and might provide data that was up-to-date at the time. Below are the questions, which were asked, along with the answers in form of summary, commentary and citations, with the purpose of the clearest presentation of important data. Additional information and opinions gotten from this interview are placed below the main content. Credentials of interviewed person (called Person A for purpose of text) are in the answer to the first question asked.

1. What kind of business experience with Russian Federation do/did you have?

Person A, of Finnish nationality, has a long history with doing business between Russian Federation and Finland, as well as operating in Russia itself. It started in 1970's when Soviet Union still existed, and lasts till today. He operated during the times of communism, prierestrojka (tries of liberalization of communistic system in Russia in-between 1985-1991, which led to end of Soviet Union), and new Russian capitalism and during current times. To list some of his business life achievements (to simplify the text, name Russia and connected adjectives were used while the correct names for this territory were different depending on period of time):

- involvement in establishment of factory in 1987
- taking part in establishment of one of the first joint-venture company in Russia in Vyborg
- trade operations between Finland and Russia starting from 1990
- own factory in Karelia in 90's
- involvement in joint-venture cooperation between three cities in Russia
- delegated as, by Finnish and Russian companies, an administration of four different exhibition in Karelia
- between 1997 and 2008 projects involving mainly trade with Russia and helping Finnish companies to start business in that country
- in 2004, involvement in research and development cooperation between universities in Finland and Russia

Before and in-between those events Person A was involved in different business operations and business consulting. He mentioned that he crossed the Russian border around 1000 times so far. Currently Person A is involved into trade consultancy between companies from Finland and Russian Federation.

2. How do you see Russia as a customer for Finland?

First reaction for this question was:

“It is important. It has been important, it is now important and it will be important.”

Because of size of country, big population of potential customers, being Finland’s biggest neighbour and having growing economy, it is an important business direction for Finnish companies. Depending on the year, Russia is on one of the three positions as top importer and exporter for Finland. The other two on the top are Sweden and Germany, with whom trade is easier due to European Union membership. His opinion for Russia seemed very strong

“Even if they have some political issues at the moment, (...), it is but one detail. The Russia is there, the people are there, and it never goes nowhere.”

3. What kind of problems did you experience while operating in Russia/exporting goods from Finland?

For this question, first answer was Russian business culture, which is more similar to European business culture. He mentioned that a person from a company always needs to remember that he is a visitor in Russia and he shouldn’t teach locals what to do and how to do it. Decent amount of patience and strong nerves are needed in dealings. The significance of director and managers is much bigger than in Finland. Most, if not all, problems and decisions are solved and done by people on these positions. Negotiations and talks can be hard on unprepared person, because they can be interrupted all the time by people coming or calling to ask director/manager about decisions or reporting problems. For Person A, his first thoughts were that it is hard to push anything forward because it is simply impossible to have a long talk without interruptions. He mentions that such situations were typical for 80’s, but there are still many companies and government positions managed by people with such manners. Also he sees that new generation has a different approach to managing companies thanks to different education and times, but there is still the same culture behind it, which will keep some things from changing much.

During his work with Russians he realized that there is always a big part of informality and emotions in dealing with them, but respect towards elders is kept. As an example of business talk, he told the story from the time when he was establishing joint-venture company. On the meeting there was a general manager of a company, local manager and

him. In the beginning the two managers were discussing something very emotionally and Person A not knowing the language too well at that time, asked the interpreter what they are discussing. The answer was that currently the managers were talking about fishing.

Going straight to business, without any small talk or more friendly approach, is uncomfortable. Of course, as already mentioned business culture is changing along the time, but such behaviour is deep within Russian culture and will not change much.

All the aspects that were mentioned in answer to this question can be classified as natural barriers to trade. How can a business proceed if we cannot communicate well with our possible partner for trade? It cannot. In countries like Russian Federation, people might choose different business partners simply because of personal relationship between Directors of companies.

4. Are you familiar with the term: Trade barriers?

This point was designed as a lead-in question. Person A has knowledge of what trade barriers are and there was no necessity to explain the term. That is why next questions followed quickly.

5. When making business in Russia, how much of a problem were:

a) Tariffs and tariff rates?

Person A saw the tariffs changing all the time over his 40 years of business experience with Russia. He stated that official tariff rates are different than on the border. Tariffs are treated and assigned (classification of a product) on a very local basis. He mentions that government has a big power, but local administration also possesses quite a lot of possibilities to change the rules. Person A believes that Russian joining of WTO will improve the situation, but before the improvement will reach the customs officer on the boarder there is a long way and long time from the central government who directly deals with the organization. The size of the country and number of hands the changes needs to get through, make the implementation of rules time consuming.

b) Government participation in trade?

In opinion of Person A, in theory, government participation does not exist strongly on the level of small and medium companies, but in practice a company needs to consider local authorities when making agreements. One needs to consider existence of indirect influence and take care of it. He states that transparency is not so high level in Russian Federation, and authorities could use such methods as administrative guidance.

In his opinion, subsidies are commonly used in Russia. WTO works on global and country level, but home companies will always be supported just because they are part of the local society. In comparison to EU, where all markets are open to all companies on fair rules, in Russian Federation it is only the theory that the market is open for all firms that is true, practice falls behind. Person A, tried to recall new leader of Karelia region promising that subsidies for local companies will be dealt with and put under more strict control.

Government procurement exists in Russian Federation, creating unfair competition not only for foreign companies but also for some of the local ones. Person A gave an example of a firm he knew, which tried to sell their product to army on a similar price to the competitors, but with better quality. Another company was chosen as the supplier and after some time information has reached the company, which lost, that the owner of winning firm was a relative of representative from government who was choosing the supplier. The case went to the court and as a result the trade was cancelled. Another outcome of this situation was that neither of the two mentioned companies got the contract. It was a third firm that got it. In case of Finnish companies, Person A states, they provide such high quality of products or services that Russian competitors have no chance, but if more similar level of quality would be provided, then in his opinion, the choice will be clearly going towards the domestic producers/providers. It also creates wrong idea for Finnish companies, which might make business once, but next time the competition with just slight improvement might win the contract because of preferential treatment.

c) Customs and entry procedures?

In Person A opinion, it has been and is the biggest problem. First thing that came to his mind was product valuation, which causes many problems. The pricing systems were not always understood correctly and if product seemed too cheap, a certain percent could have been added to its value.

He also mentioned that it happened so, especially during earlier times, that he had all papers for border control prepared according to the instructions and checked by his Russian partners, and when he arrived at the border it came out that customs officer's instructions were different than his and in some occasions that created a situation, when he had to turn back.

Considering licenses and permits, he said that for certain products they are required, but advices to let a specialist deal with them. In his opinion, one does not have to know everything and such operations like obtaining licenses should be directed towards specialized companies, which will provide the best knowledge and help in this matter. Subcontracting or simply using the right advisory export companies will make everything easier.

Inspections done by customs are different depending on the border pass point. Person A opinion is that the southern (region of Vyborg and way towards Sankt Petersburg) border passing points are much more modernised and as a result faster. Because of high traffic there they do not care so much about each and every detail and are more flexible than northern (Karelia) passing points, which, due to lower transit, have more time and are much more detailed in inspections and every detail of documents and goods is checked. In his opinion, the technology used by customs has improved. They possess modern computer systems, which positively influenced the time and quality of border passing. He shared his worries about customs offices not being able to follow after all the changes brought with WTO and being behind almost like in 90's when transition between political systems brought great confusion.

Health and safety regulation can bring confusions because basic law in countries is different. Sometimes some small details are brought into attention, which would be never even looked on in other country, Person A states. That is why it is worth to use export specialists, who know what should be done and how.

d) Product requirements?

There are different requirements and certifications in Russia. Russians have their own standard giving office. Person A advised with this question once again to use customs specialists when exporting, because they possess the best knowledge about these issues. It is hard to possess all the information needed by one person, especially that they are changing along the time.

e) Quotas?

Person A, when talking about quotas, mentions existence of tariff-quotas and possibility, completely illegal, to bypass the quotas by bribery. He also mentions that such activities are better managed by Russian business partners, as Finnish culture tends to not accept illegal dealings and as well does not know how to do it in most effective way. Quotas do exist but their effectiveness is not high.

f) Financial control?

In all his trade done, Person A, used mainly other currencies than rouble. Russian currency became accessible, but he thinks that it is still better idea to do business in dollars or euro. Apart from time when he experienced different exchange rate in two cities being 100 kilometres away from each other, he never had problems connected to this subject. He also did not encounter other forms of financial control.

h) Other barriers?

The main subject for this question was security of business. The choice of good partner for business and allowing always less with him trust was mentioned as essential. Good control system including requirements of one's signature for all bigger bank transfers. Company take-overs are quite common in Russia. Key accountant and General Director hold enough power to transfer whole business to another, possibly, their own firm.

Protection of patents is not so good in Russia as well. He agrees that, depending on success level, after up to one or two years a copy of one's product will appear on the Russian market. Eventual court cases are possible to win on smaller scale. The more money the case involves and the more local the copying company is, the harder it is to win such case. If local authorities are somehow connected to the case then it gets even harder.

6. Did you experience illegal activities hindering the trade or promising to make it faster?

Person A mentions that he has never been directly in contact with crime organisations, but experienced situations when bribes were possible. Most of such barriers are rather connected to big scale businesses.

7. How did you manage such barriers?

Interviewed person advised, that it is the best to leave such situations to manage by Russian business partners. They know how to handle such situations better and more effectively.

8. Were they hindrances that could not be officially passed?

He never experienced such situation of such scale, but mentioned situation of another company, which could not get electricity to its building without getting proper agreements

signed by local authorities, which require bribes to make the process faster. The whole situation was caused by company not preparing properly before opening branch in Russia.

9. Do you think WTO joining of Russia will improve business conditions for Finland?

Question was answered in previous subjects discussed. To sum it up, the situation will improve but it requires time. It will bring stabilization in a long run, but it will require a lot of adjustments on both local and country level. The barriers to trade should also be lowered, but it might as well cause creation of new, less transparent obstructions to free trade.

Along with this question, an additional one was asked about political stability of Russian Federation and influence of potential changes in government. Interviewed person has an opinion that any shifts in power will be directly felt by big companies and organizations. Small and medium business will rather not feel any bigger differences and might eventually be influenced indirectly.

10. Do you think that knowledge about trade barriers can help Finnish companies in doing business in Russia?

Person A said it would surely help. There are always some things that a company might not know and using external sources to widen the knowledge is always useful. Good preparations can avoid waiting for long hours on the border or, in worst case, having to return with goods with Finland.

Summary

Most of the interview surrounded the subjects of customs procedures, tariffs and government participation in trade. Those areas seemed to be the most barriers creating. It is similar to the results from other sources. Interview with person, who has experience in

trade with Russia, helps to understand the way the system there works and allows different viewpoint on all the cases and data.

During the interview, a number of useful information was mentioned, which were not connected to the questions themselves. Person A mentioned different advices for how to behave when starting exports to Russian Federation. Finding a good business partner is one of the essentials in doing business in Russia. A proper background check should be done. If one does not have an information network in Russia, which could possible do such a check, then help could be found from Finnish Chamber of Commerce or export specialists. Depending on skills, a decision can be taken basing on own evaluation of a potential business partner. Doing small tests can reveal important information about a person. If he, or she, not honest about small things, then most surely big things will also be a failed subject. Honesty on the small scale means that the person can be also entrusted with bigger trust. Generally, when it comes to level of trust, it should always be a level lower than a person's think. To simplify export activities, company should try to get most favourable conditions, in form of payments in advance and delivery to the border. First thing say for itself that is the safest method of payment excluding any risks of not getting the money, along the time, along the time when customer is known better and can be trusted more, other forms of payments could be slowly introduced. As it can be seen in latter part of this research, even couple of years might not be enough of time. Deliveries to the border save nerves, time and money, because the exporter does not have to deal with customs procedures at all. Right documents need to be provided to the importer along with the goods.

5.8 Case study analysis

This case study is based on interview done with representative of company from Ylivieska region. It describes a real situation and for protection no names of companies or people are used.

On a trade fair in Helsinki a company from Ylivieska (Company Y) was approached by potential customer. Two men, representing firm from Sankt Petersburg (Company S), wanted to buy consumer goods in bigger amounts. The main condition given by Finnish company was that the money for items would be paid in advance. The men agreed and the business proceeded over the period of next three years. Each year there were around 3 to 4 purchases of 10-15 pallets. The goods were either delivered to the border or to Vantaa, where picked up by the customer, or loaded onto buyers truck on the premises of Company Y. All the customs operations were managed by Company S and money were always coming on time, before the pick-up.

Sometime during the second and third year of the business a problem has arisen. Company S reported that some part of the goods from the delivery is missing. Company Y was sure that everything was packed as ordered and sent without problems. When the problematic situation repeated couple more time, Finnish company decided to send the reported missing goods from previous deliveries with next order. As a precaution, the package was rechecked and photographed before sending to have a proof of full amount leaving the premises. This was the last order made by Company S. After that there was no contact whatsoever. Company Y tried calling, messaging and faxing business partner without any results. Further search in internet also revealed nothing. Only personal check in Sankt Petersburg was not done, other than that, the Russian company disappeared completely.

The reason for abrupt end of contact is unknown. For Finnish company it was a good business and no losses, apart from the extra products sent as replacement of supposedly missing goods, were taken. Some questions arisen later about: payments for orders, which were sent from New York, U.S.A, no information about type of business the customer did and potential reselling of goods, and unknown methods of dealing with customs offices. Company Y was pretty much left in the dark at the end of the business with Russian customer. There is no direct sign of any illegal activities being taken by Russian company, but surely there was a try for cheating Company Y about missing materials or less possibly there was a third party included, which simply stole some materials. The behaviour of Company S indicates first option as being more possible.

Most of possible risks included into this business between Russian and Finnish companies were avoided by Company Y, by using good precautions methods. Asking for payment in advance, controlling deliveries and using counter methods (taking photos of deliveries in this case) ensured own innocence and safety of business. Mistakes happened as well but good control over the business minimised the possible losses.

The representative of Finnish company stated his opinions pretty strongly and gives out clearly his cautious attitude towards making business with Russia. First one to mention would be

“You must know how they work and what they think”,

which in less direct manner can tell that knowledge about possible behaviour coming from culture and law of customer can provide essential tips in making business. This person also mentioned necessity of constant control and “looking at the hands” of the partners because

“If they see they can use you, they will”,

also expressed clearly in quite international saying

“If you give them little finger, they will take the whole hand”.

To ensure safety of your business, keep a steady control over what is happening and think how eventual problems can be countered. Also choice of business partner is important, if it cannot be checked, then the policy of limited trust build over longer period of time is the better idea. Demonization of another nation’s business culture might come out from cultural differences and is wrong. Successful international business must manage differences in culture as trade barriers and simply prepare for them.

6. CONCLUSION

Situation concerning barriers to trade in Russian Federation is changing. It is hard to estimate if it is for better or worse. In the long run it seems that everything is directed towards more open market and fair competition, but the time will show if that vision will not be changed. If the trade is meant to be controlled, there will be always a method to do it. Tariffs are losing their power slowly, by constant work done by WTO and other organizations. Next to elimination are nontariff barriers but it seems that once an obstacle of this kind is removed, a new one might occur in its place. It does seem like that a high level of international trust is needed to enable free trade. Lately it is becoming harder to classify if something is a trade barrier or not. Private and natural barriers to trade are not new, but when looking from certain point of view one can see that they can be effective blockers. It seems that process of enabling a real free global trade is slowly heading towards elimination of the core of the problems, but still has a long way to go.

Over the last two decades Russia has gone through radical changes both in politics and economy. Nowadays it is one of the biggest economies in the world. At the same time, it is the closest and the biggest neighbour of Finland. With Russian Federation taking more active part in world trade and its stabilisation, by creating customs unions and joining international organizations, its markets become at the same time more available. It is the perfect occasion for Finnish companies to do a good business with Russia as well as in its partner countries from the CU. Finnish companies need to actively think about going outside of the home country with their products to develop and grow. Russia is not the easiest target for it, but it is close, situation is, at least, stable and positive changes are being introduced. Russians believe in quality of Finnish products and the ones who have money will spend any amounts to get the best quality of what they want.

Company will have higher chance for success in doing business in Russia when a proper preparation is done. If a firm exports goods to Russian Federation for the first time, it is worth to use help of an export specialist. Such person will help to prepare all necessities

for business. Many free sources of information can also be found over the internet. They might be governmental support programs or international researches on the subjects connected to international trade. Finnish government supports domestic business pretty strongly and try to assist in eliminating trade barriers. Any company that meets with problem of trade barriers can report it on the official site of Ministry for Foreign Affairs of Finland. Steps in lowering trade barriers can be taken on many levels and country stage is a good first step before going with case to WTO.

One of the most important pre-requisites for success in Russia is a choice of good local partners. A background check, with information from various sources, is always advised. If one does not have a network in Russia to use for such check, then earlier mentioned export specialist comes in handy, as he should be able to provide information about potential trade partner, his/her motivation as well as business interests. Of course the choice can be done based on own evaluation and small tests, but it is the less safe way. A good partner can provide us with his network in the target country and make many things easier. Mentioned in this work illegal operations are rather excluded from Finnish culture, which is why such problems can be solved by the other side, which knows what the best way to manage it is. Trust should be built over longer period of time. In all the sources, which mentioned the subject, it was told that strong business relationship cannot be build overnight. It requires time and effort as well as patience.

Successful business, with the eastern neighbour of Finland, requires broad way of thinking and good planning for future. It is important to keep control over the operations and be prepared for solving any problems arising because they will show up sooner or later. Nothing can be taken for granted. Occasions for business come and go. It is important to know, when to keep trying and when to finish. Otherwise one can end up in bad situation if not critical, in which he loses all customers and contacts as well as can have more direct material losses. Good control and “keeping the hand on pulse” will allow to react accordingly fast to not allow the things to happen or to soften the effects of it. Many situations can be solved easier, if one asks for help of specialists. They know how to solve problems and can at least advice in moment of crisis.

If a company does not want to strong involvement into customs operations, then it can simply pursue the most fitting delivery terms, which is, in described situation, delivery to the border and passing the goods to the buyer there so he takes care of all the documentation and procedures. As a safe measure it is also good to pursue the option of being paid in advance. Apart from having more financial flexibility this way, one also avoids potential risks of not being paid. With trust being built, the balance between money paid in advance and money obtained after transaction can shift so that both sides are happy. A lot about precautions was written, and they are right, but no country should be demonized because of different culture and business practices. Entering any market should be well planned and prepared so that profits are maxed and risk minimized.

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